Handling a Brokerage Account

By

ROBERT L. SMITLEY, A.B.

Financial and Business Research Specialist. Member of New York Stock Exchange, 1907—1910. Formerly Cashier, Shearson, Hammill & Co. and Business Manager, Magazine of Wall Street.

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A

"COMPLETE EDUCATIONAL COURSE"

IN THE SCIENCE OF

MAKING MONEY MAKE MORE MONEY

This list is arranged in the order of proper reading. The books are accompanied by a series of test questions, key problems and analyses outlines, enabling the student to apply the knowledge acquired to immediate stock market and investment conditions.

1. *Developing Financial Skill*
2. *Forces Which Make Prices*
3. *Manipulation and Market Leadership*
4. *Handling a Brokerage Account*
5. *Market Information*
6. *The Essential Features of Securities*
7. *The Value of a Railroad Security.*
8. *Industrial Securities*
9. *Oil Securities*
10. *Mining Securities.*
11. *Investment Securities*
12. *Business Cycles*
13. *Measuring and Forecasting General Business Conditions*
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CHAPTER I

WHAT THE BROKER'S FUNCTIONS ARE

"Transactions involving millions come and go through the Stock Exchange without the slightest friction. No great business mechanism works more smoothly."

—William C. Van Antwerp,
of Van Antwerp, Bishop & Fish.

How the Brokerage Business Originated

As we understand the stock broker at the present time, his profession dates back to the establishment of the Bank of England in 1694. From that period until the present, the profession has gone through vicissitudes, and sometimes the members have been looked down upon and at other times looked up to.

The establishment of a National Debt, and the opportunity for individuals to purchase and sell the evidences of a National Debt, brought about the idea leading to what is known today in England as Joint Stock Companies and in the United States as Corporations.

A portion of the interest in the Joint Stock Companies or the Corporations became known as a share.

Individuals appreciated the possibility of selling their shares to others, either at a profit or because they needed liquid funds, and the necessity for the broker came about because of the fact that the seller and buyer could not easily discover each other. It, therefore, became the part of the stock broker to act as an intermediary between the parties, *i. e.*, buyer and seller — and for this service he was entitled to charge either, or both, a commission.

An Essential Characteristic

In all study of the brokerage business, it must clearly be kept in mind that the stock broker has nothing to sell but his

service. We find investment houses acting as stock brokers, and also as *houses of issue.* In other words, they sometimes purchase a proportionate share of a corporation with their own funds and resell this share to others at a profit. This is not the principle of the broker. The brokerage business, as a business, is purely to act as an intermediary between buyer and seller, to be essentially an agent for one or the other, and not to own any portion of the property which is either bought or sold.

In England and in France, the broker is not permitted to speculate on his own account if his business is to transact purchases and sales for clients. In this country the broker is permitted to assume not only the functions of the broker, but he may also be investment banker, banker, or a speculator on his own account.

Service Which Broker Affords Customers

The essential duty of the stock broker, we have noted, consists in acting as an intermediary or agent between the buyer and the seller of securities (securities being defined as stocks, bonds, or other forms of corporate ownership or credit, which are part of corporate enterprise). He may either find a buyer for his seller, who is a principal, or he may find a buyer who is an agent for a principal, in which case the broker deals with another broker. Therefore, the greater part of the transactions of the broker are with the *principal on one side* and *another broker on the other side.*

It will easily be seen that the necessity for the broker is such that, without his co-operation in the financial world, there would be no stability for prices, and tremendous leeway for the swindler, who might desire to defraud his client.

The fraternity of brokers, by creating a market whereby purchases and sales in corporate enterprise can be made, has been a constructive influence in the tremendous industrial growth of the past twenty-five years. The fraternity of brokers between 1835 and 1870 was largely responsible for the railway and canal organization in the United States, for without them it is doubtful if these arteries of industry could have been satisfac-

torily built. Previous to 1835 the fraternity of brokers was instrumental to a marked degree in the stabilizing of our shipping and banking industry as well as the building up of our various insurance companies.

Development of Brokerage Service

The evolution of the stock broker as a professional man, has been extremely slow; but it has been part of the economic history that all jobbers or intermediaries have been looked down upon as parasites rather than producers, and brokers have frequently suffered from these shallow views. It is not necessary to delve deep into this evolution other than to keep it in mind in studying the stock brokerage business as it is conducted at the present time.

Inasmuch as the stock broker has nothing to sell but service, it is not an economic duty for him to guarantee that which he buys and sells. The broker, however, has overstepped these economic bounds to a certain degree, inasmuch as through the instrumentality of the Stock Exchanges of which he is a member, there is a certain insurance for the client.

This insurance comes about through what is known as the listing of securities. Before a corporation can have its securities traded in on an Exchange, there are certain requirements which must be met. These requirements consist, in the main, of a certain formulated statement of the company's financial and managerial affairs. If such a statement appears to be satisfactory, from the viewpoint of integrity, the stock is listed, *i.e.*, it is given its place on the quotation list of the Stock Exchange.

But the broker must, for the sake of his clients, deal in many securities which are not listed on the Exchanges, and it is not his place, and the clients must not expect him, to give any certification as to the worthiness of such so-called outside securities.

The development along service lines has reached a point considerably beyond the listing of securities on the Exchange, for the broker is called upon by his clients to give unbiased opinion regarding investments or speculations. To give an unbiased opinion, it is necessary for the broker either through

his own research and inherent knowledge or through a special department conducted by experts, to disseminate such advice and such knowledge as he may be able to obtain regarding these various securities. This necessitates very commonly the building up of a Statistical and Financial Library. It further necessitates an equipment consisting of current reports and data derived from services which have been established for this purpose. In a business such as this is, there is likely to be a great amount of collated material, which must be thoroughly investigated, and the wheat separated from the chaff.

Sources of the Broker's Income

The broker may, for example, enter into business with a membership on the New York Stock Exchange, costing him $100,000, and capital, perhaps, of $500,000.

There are two sources of income for the broker through which he must make his earnings, and utilize his capital. These sources are *commissions* and *interest.*

The commission is charged by the broker for bringing the parties together and making the actual sale; and if every customer paid in full for that which he purchased and turned over at the time the securities which he sold, there would be little need for additional capital on the part of the broker other than the cost of his membership on the Exchange. It thus comes about that the commissions which a broker charges should be properly applied as earnings on the capital which he has invested in his membership on the Exchange.

Purchases Made on Margin

The interest part of the earning capacity of the broker arises through what is known as the marginal accounts.

Margin is that part of a transaction which the client of the broker really owns. Margin is a term which could be used in every form of business. If a man owns a $10,000 house and has a $5,000 mortgage on the house, his margin in the house is $5,000. If a merchant has a stock of $10,000 worth of silk and has bor-

rowed from his bank $8,000, his margin amounts to $2,000. The use of the marginal transaction in any business is to promote the enlargement of the business and to permit the individual to deal in more than he can actually finance with his own funds.

If a man has $10,000 and desires to pay for what he purchases, and that which he purchases costs $100 a share, he is able to buy one hundred shares, but if a man has $10,000 and goes to a broker, he may be able to buy $100,000 worth of the same security or one thousand shares by utilizing the marginal principle.

Suppose that a man has $100,000 and intends to buy ten times as much as that represented by his $100,000. He will go to his broker, whom we have mentioned above as having a capital of $500,000 and instruct his broker to buy $1,000,000 worth of the stock which he desires. He gives the broker his $100,000. The broker utilizes his $500,000 of capital, but there is $1,000,000 worth of corporate wealth purchased.

What then occurs?

Why Higher Rates are Charged

The broker goes to his bank, or he goes to the Money Post on the New York Stock Exchange, where various banks lend their funds, and he borrows $400,000 at 5 per cent — for example — and deposits $500,000 worth of corporate shares as collateral for the protection of the $400,000 which he has borrowed.

The broker's capital of $500,000 is worth at least 5 per cent under normal conditions. He is forced to pay 5 per cent, let us assume, for the use of the money which he has borrowed from his bank, amounting to $400,000, so that his client's enterprise costs him 5 per cent on $900,000.

The broker must maintain a clerical office, must buy books of account, must issue statements of record, must conform to many legal requirements, and must pay rent and other overhead charges, simply because his client desires to purchase ten times the amount of corporate securities that the client's capital would permit, if purchased outright. Therefore, this additional service on the part of the broker is entitled to a material recompense from the client, and the broker is entitled to charge and

does charge the client a higher rate of interest than that which he pays. Thus, we find the second series of profits for the broker.

Collection of Interest and Dividends

Corporate indebtedness, if in the form of bonds, pays interest and the brokerage profession collects, in many instances, the bond interest for the clients.

Corporate partnership, in the form of stock, pays dividends, issues rights and other kinds of privileges, and inasmuch as the broker must necessarily keep these evidences of corporate enterprise in a negotiable form for the sake of making such instruments capable of having a borrowing capacity, it becomes necessary for the broker to arrange for the collection and the distribution of these dividends and other accrued increments arising from the distribution of corporate profits. This collection and division of dividends, etc., necessitates additional machinery of a costly nature, and it is necessary for the broker to derive some profit from this portion of the service which he renders his client.

CHAPTER II

ORGANIZATION OF THE BROKER'S OFFICE

What Each Partner Does

The client has presented for his examination on the next page a comprehensive chart of the organization of a brokerage office. This organization is not similar to any other organization in the financial field, such as investment banking, banking, foreign exchange or the collateral branches of corporate enterprise. The ideal brokerage firm, without taking into consideration branch office functions, may be said to contain three partners. One partner has charge of the actual buying and selling on the Exchange or in the open market. The second partner has charge of getting new clients or developing in a profitable manner for the client and the firm such clients as already exist, and in collating news and information which is necessary for a high type of brokerage service. The third partner has charge of the mechanical end of the business, relating to the office and the overhead. And it is with this third partner that we have now to deal in determining how the office is organized properly to care for the business of the client.

Of course, the duties of these three partners are interrelated, but so far as is possible, the actual machinery — and it is an extensive machinery — is in charge of this third partner.

First and foremost, he has associated with him an office manager, whose business it is to take entire charge of the details of the establishment.

Activities of the Order Department Described

The first section of the machinery is the Order Department. The relation between the client and the broker in the matter of

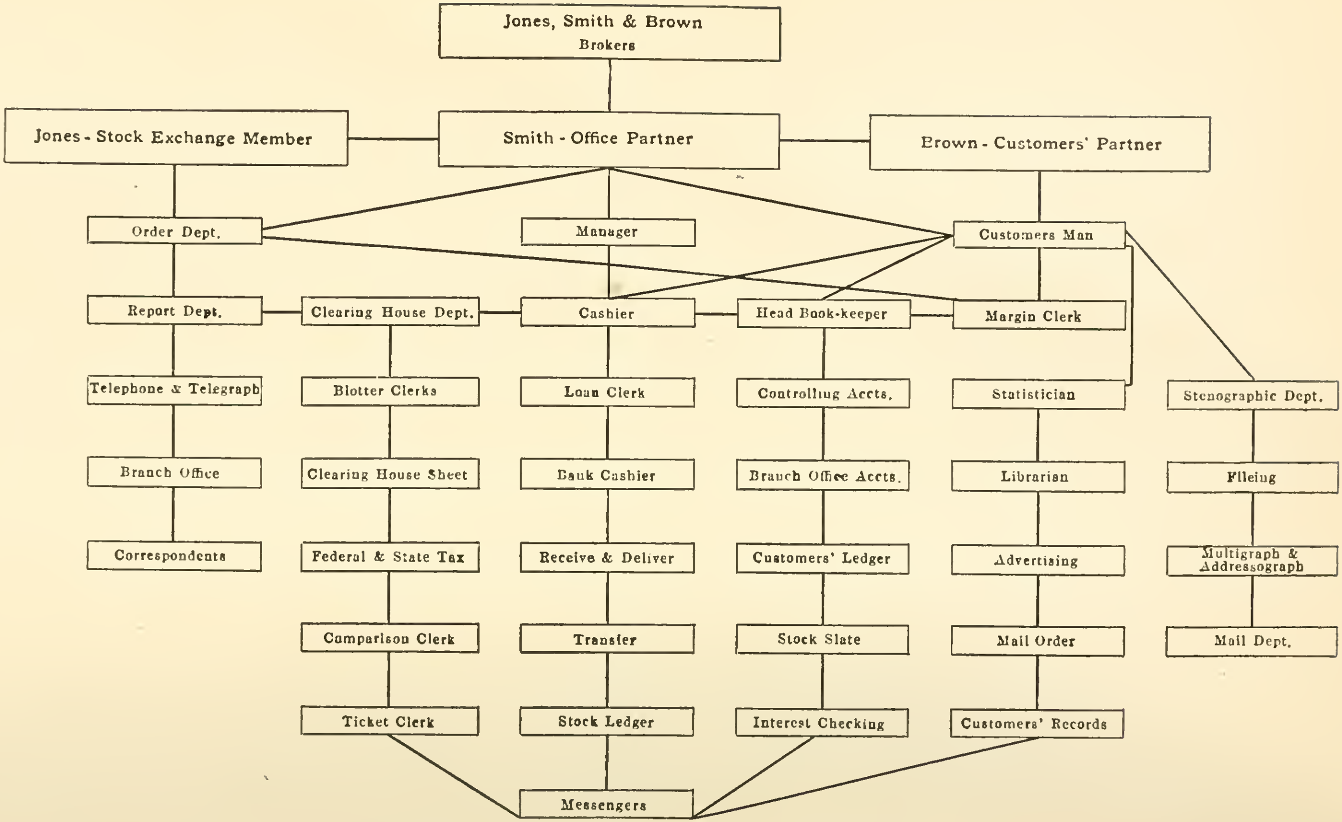


FIGURE 1: ORGANIZATION OF A BROKERAGE FIRM

giving orders, and the ethics in connection with this phase of the business, will be taken up in Chapter IV. Here we are concerned with the way the various activities are carried on.

The Order Department machinery usually consists of telephones and telegraph instruments. Where the brokerage firm provides a room for the customers, it is usually the case that the Order Department is quite close to this room, with an employe stationed at a window or an opening to facilitate the quick handing in of orders for transmission to the Exchange, or to the outside broker dealing in securities not listed on the Exchange. The chief of the Order Department is a man preferably who is quick, cool, and who never loses his head.

This department provides blanks marked "buy" or "sell" whereon the customer writes the order, or if the order is received over the telephone, it is written on one of these slips by the telephone clerk, or if received over the telegraph wire, it is written by the operator. There is one other form necessary, known as the "Cancellation" form, on which form is written either the cancellation of an order already given or such cancellation with a change in price added to it. These orders as soon as handed in, are given to the clerk, who is stationed at a telephone with a direct connection to the floor of the Stock Exchange. There may be more than one telephone to the floor of the Exchange, so that one hundred shares or larger orders may be carried over it only, and odd lots, or less than one hundred shares, may be transmitted over another 'phone.

A third telephone brings the operator into direct connection with the representative of the firm who buys and sells for the client shares on the Curb Market, or also in what is known as the Unlisted Market.

Handling of Orders

As soon as a customer's orders are transmitted, they are repeated back by the clerk at the other end, and immediately checked by the first telephone clerk and then handed to another employe who lists them in a book retained for that purpose,

with the date and time at which the order was received, the name of the client giving the order, the account, if possible, and, of course, the price, should this be specified by the customer.

When the order has been filled, the telephone operator receives word from the broker to that effect. It is at once written down and passed to the Head Order Clerk, who either makes a memorandum report to the client or lists it on triplicate forms to be sent to the Accounting, Clearing House, and Report Departments.

It is often the case on account of the volume of its transactions that firms find it necessary to use two telephones for the transmission of orders, and another telephone for the receipt of completed transactions.

Furthermore, during the entire period in which the market is open for business, it is necessary for the broker to quote prices on various securities in which his customer is interested, and this involves considerable machinery, necessitating much time, and the keeping of numerous records.

Completing the Records of Orders

When the triplicate reports leave the Order Department, one goes immediately to the Clearing House Department, where the clerical force prepares the machinery and the forms necessary for immediate comparison with the broker with whom the transaction was made. This department also has entire charge of making out and exchanging Clearing House and comparison tickets, and making up what is known as the Clearing House Sheet. On this sheet are listed and arranged all the transactions in securities which are actively dealt in, and which the Clearing House of the New York Stock Exchange may assist its members in clearing. Certain stocks, bonds, etc., which are not cleared are entered on another form, which is known as the "Ex-Clearing House Blotter." These so-called Ex-Clearing House transactions must be settled individually the following day, unless otherwise specified.

Another form from the Order Department goes to the Report

Clerk, who types a memorandum which is required by law to be sent immediately to the client, designating from whom the stock was purchased or to whom sold, the price, the date and time, and possibly certain features of accounting which would interest and be helpful to the client.

The third form goes direct to the Margin Clerk, who immediately discovers from his records whether or not the client is entitled to the credit which the firm has extended in making the purchase. If the margin is exhausted or already below that which is required by the broker, it is necessary for the Margin Clerk to send out a call to the client, asking for more funds. As soon as this matter has had the Margin Clerk's attention, the report is turned over to bookkeepers, who hold the so-called daily blotters or sheets of record from the Clearing House Department; and they check the transaction against the figures which have appeared on these blotter sheets, and then post in the proper ledgers.

The following morning these Ex-Clearing House sheets, with a *summary* of the Clearing House sheets attached are delivered to the Cashier's Department.

Activities of the Cashier's Department

The multiplicity of detail of the Cashier's Department would perforce necessitate an entire treatise upon the subject, were they to be described in full, but the Cashier's duties in brief may be stated as follows:

Upon receiving the business of the previous day, comprising Clearing projects (in many instances odd lots or amounts less than one hundred shares are cleared) the Cashier notes whether or not the necessary payments are greater than apparent receipts. If he finds that the payments for the day will be greater than the receipts, he borrows sufficient funds through the help of his Stock Exchange member on the Stock Exchange, or directly from his bank; and uses the securities which have been purchased, or which he may have in his vault, to make up the collateral for the loans. When the funds from the loans have been received,

they are deposited in his bank or banks to his credit, and drawn against to make payments for that which he must receive from the transactions through purchases on the previous day.

The Cashier's Department must keep accurate record of the securities which are received and be satisfied that such securities are properly endorsed and fulfil all the features which are prescribed by the rules of the Stock Exchange or customer; he must be sure that his securities are properly transferred to his own or his client's name so as to receive whatever dividends are distributed by the company; he must keep a record of the collateral securities in his loans; he must, upon order, transfer securities to such names as are given him by clients; and among the thousand and one other incidental duties of his department, must arrange for the substitution of certain securities which he possesses in his own vault for securities which are placed in loans in his banks, and which may be needed for delivery. Incidentally, he keeps accurate record of his bank balances, draws checks, makes deposits, and keeps a record of the securities which come in and go out, knowing at all times where they are; and his books must balance both as to money and securities every night before he goes home, or before the next day's business is started.

Bookkeeping Department

The Bookkeeping Department in addition to keeping a careful and up-to-the-minute record of the condition of every client's account, must render periodical statements to the clients, and make certain that the capital of the firm is intact and that the multifarious duties connected with that part of the organization are accurate.

The brokerage business, it will be noted from the foregoing description, possesses a somewhat elaborate and complex organization. The work which is done must be done with speed and with accuracy, quite unlike the ordinary merchandise business where certain features may be postponed from day to day.

CHAPTER III

WHAT EXCHANGE MEMBERSHIP MEANS

Purposes of New York Stock Exchange

There are, throughout the United States, Stock Exchanges in nearly every large city, but in almost all cases the Exchanges in these cities deal only with local securities. For the purpose of explaining what Exchange membership means, it is necessary and proper to take the New York Stock Exchange as an illustration.

The object of the Stock Exchange is to furnish facilities for the convenient transaction of business by its members as brokers, to maintain high standards of commercial honor and integrity among its members, and to provide and inculcate just and equitable principles of trade and business. To become a member of the New York Stock Exchange necessitates the most searching investigation on the part of the Committee on Admissions, regarding the integrity and the financial responsibility of the applicant. There is no foreign Stock Exchange, with the exception of the Paris Bourse, which approximates the strictness of the membership test required by the New York Stock Exchange. The Paris Bourse, however, is hardly analogous because of the fact that the Agents de Bourse are mutually liable for each other's indebtedness and are practically subsidized by the French Government.

In order to appreciate the high ethical and moral demands to become a member of the New York Stock Exchange, the client may read carefully the Constitution of the New York Stock Exchange.

Essential Characteristics

It is essential to realize that the Exchange transacts no business of its own. The Exchange itself produces nothing but

service, and it does not make prices. The public, or the principals who give the orders, are the ones who make prices. Furthermore, the New York Stock Exchange differs from all other Exchanges because of the greater publicity concerning its transactions. The service which it renders by placing on the ticker the price of each transaction made prevents fraudulent transactions, and gives the whole United States immediate news of what is occurring on the Exchange floor. It is very difficult for our English and Continental brethren to understand why we permit this publicity, but it is on account of this publicity that our speculative and investment commitments are so much better specialized than elsewhere.

Stock Exchanges Classified

There are about thirty-eight Stock Exchanges in North America. These are necessarily divided into: —

National Exchanges, the listed securities of which will be corporations throughout the entire country and in foreign lands, such as the New York Stock Exchange;

Sectional Exchanges, the securities of which cover a certain sectional part of the country, such as, for example, San Francisco;

City Exchanges, which deal practically entirely in corporate enterprises in the city in which they exist, as for example, in Cleveland, Cincinnati, St. Louis, and Washington;

Mining Exchanges, dealing almost exclusively in local mining properties, such as the Colorado Springs Exchange and the Salt Lake City Exchange.

Ordinarily brokerage firms have connections of a more or less direct nature with all Exchanges. It should not require any extraordinarily detailed instructions to impress the student with the importance of the economic value of the Exchange.

CHAPTER IV

GIVING ORDERS AND KINDS OF ORDERS

Time During Which Orders Remain Good

Under the American plan, unless otherwise specified, the stocks or bonds purchased are delivered before 2.15 p.m. the following day (with the exception that when securities are purchased on Friday, deliveries are made on the following Monday, Friday and Saturday being considered as one day). When a customer gives an order to a broker to purchase or sell, unless otherwise specified, such an order is construed to mean in the regular way.

An order given during the day means that it is good for that day only. Under ordinary circumstances, this rule would also follow in connection with an order which is received in the mail, but many firms have changed this ruling, and orders which are received in the mail are considered to be good until they are executed. This ruling, however, is only determined upon after the broker has so notified the client. However, if a customer sends in a letter to sell one hundred shares of Northern Pacific at $83, the broker is *privileged* to accept this order for the day only. Therefore, it is always safer to specify the time for which an order is to be good, if such order is sent by mail.

Kinds of Orders

The various kinds of orders are:

The simple command without any other qualification, means that the order is good for the day only.

An order accompanied by the letters "G. T. W." means that it may be kept good until the close of the market on the Saturday following the day the order was given — good this week.

An order marked "G. T. C." means that it is good until it is countermanded, or until it is executed, and the purchase or sale is actually made. This Good-Until-Countermanded order is the most customary type, and is utilized more than the others because of its permanent nature; but at the same time customers must always specify "G. T. C." when giving an order such as this is.

Stop Orders

Stop orders, or as they are often called "stop loss orders," or in brief "stops," may be placed under any of the preceding forms. A stop order is used for protection, either on a purchase or a sale, *but does not mean that the customer will get the price named in his order.* For example, if the customer owned ten shares of Southern Pacific at 90 and gave his order to sell at 83 stop, there would be a number of possibilities in connection with the order. As soon as the sale is made at 83, the stop order becomes what may be termed alive. If other brokers are bidding 83 for Southern Pacific the customer may get this price for his ten shares, but if the stock is sold at 83 and the next best price is 82, the customer will get 82 for his stock. A stop order is not a limited order, but in reality a market order to take effect as soon as the stock reaches the noted price. In inactive markets, or where there is a tremendous spread between the bid and the offered prices, or if a stock opens on the following day at a different figure, the stop order loses its protective qualities.

Special Uses of Orders

If a customer desires to sell a security which he will not be able to deliver to the broker for two or three days, he may either sell it short temporarily, the broker borrowing the stock until the customer makes the delivery of his shares, or he may sell "at three days" or "seller three," which gives him the privilege of waiting that period of time before making the delivery, or he may make the delivery sooner on one day's notice to the buyer.

Securities may also be sold on a thirty-day basis, which follows the three-day form in every characteristic.

Trustees, estates, married women and others who sell stocks which require legal papers, also foreign clients, may make sales of stock or bonds which cannot be easily borrowed by selling "delayed delivery," which is a kind of gentleman's agreement between the purchaser and the seller to wait a reasonable length of time before completion of the transaction.

How Orders are Given

An order may be sent in by written communication, may be given verbally, or may be telephoned.

When sent in by *written communication*, the order should be specified clearly, the name of the stock distinctly given, the type of stock designated, whether common or preferred; and in case of bonds, the exact title, the interest rate, and the maturity date of the bond should be clearly set forth. The order should be *addressed to the firm* and not to any partner or representative of the firm.

When a *verbal order* is given, the customer should make very certain that the proper agent having authority receives the order. After it has been verbally communicated and passed on for execution, it should be written and signed by the customer and handed to the Order Clerk, or the proper representative of the firm, so as to be on file.

If an *order is telephoned*, the customer should make certain that the representative at the other end of the telephone is the proper person to accept the order, and the name of the individual should be learned by the customer. The customer can further safeguard himself by having such representative of the firm repeat back the order which has been given. Furthermore, this order should be confirmed in writing, no matter whether or not execution has been made.

In a busy broker's office, hundreds of orders are passing through the hands of the clerks during the minutes of the day, and every precaution should be taken to see that such orders

are properly cared for and are correct, and much co-operation is necessary on the part of the client.

Special Points Concerning Orders

If the firm makes the transaction at a price which is different from that which the client believes he had ordered, it is the duty of the client to prove that the broker is wrong. Should the broker send a report in due season to the client on a transaction which the client knows nothing about, or which is different from the order given, the client must at once repudiate or otherwise he will assume responsibility. Even if there has been a mistake made, or even if the client did not give the order, he may nevertheless assume the obligations of the transaction reported to him if he so desires.

In giving an order before the market opens in the morning, the client should be sure to place it in the broker's hands before fifteen minutes to ten o'clock, because after that time the congestion is so great that there is apt to be a delay.

In giving an order for securities dealt in on the New York Stock Exchange, the client should always check the transaction if it is in one-hundred-share lots or over, by referring to the ticker tape. Sometimes in an active market, the ticker tape is from a few minutes to an hour behind the actual transactions, so that the client must always take this feature into consideration.

In giving an order in a stock which has a wide opening, as, for example, if the order was to buy one hundred Southern Pacific and the stock opened from 100 to 104, the client must be satisfied with any price between these figures. However, in the case of an odd-lot purchase amounts below one hundred shares, it is the custom for the Odd Lot Brokers to establish a fair price.

Orders in bonds, unless such bonds are actively traded in, should not be given at the market, but a quotation should always be had before an order is given. This applies also to so-called unlisted stocks, which are dealt in "over the counter" or by telephone transaction.

Orders given in Curb securities should likewise be carefully checked up, and seldom given at the market unless the stock is very active and the firm with which the customer is dealing can be depended upon.

As soon as the order is given to the customer's man, it is handed to the Order Department and, as described in Chapter II, goes through various bookkeeping trials and tribulations. These interest the customers less than the fact that it is as quickly as possible communicated to the floor of the Stock Exchange.

Handling Orders on Exchange Floor

The clerk at the telephone on the floor of the Exchange writes down the order on a sheet of paper, and either sends it by messenger to the specialist dealing in that particular stock or touches an electric button at the side of his telephone. This electric button displays on either side of the room a white number on a black background. Each broker has his own number and he soon learns to "feel" that number flash. This flash calls him to his telephone clerk or he may send a messenger boy, but in either case he himself receives the order and as soon as possible makes the purchase or sale through another broker. He then returns the order personally or by messenger to the telephone clerk who reports it back over the wire, and it is communicated to the client. In the case of branch office customers, it is, of course, necessary to telegraph. And where the client is not in touch with the telephone or telegraph, the order is communicated by written means on a specialized form for such communication.

The chances for making an error on any order are exceedingly numerous because of the fact that under ordinary circumstances the order passes through from eight to ten hands before it has been executed. Market orders are often given, communicated, filled, and reported back in less than five minutes, so that taking everything into consideration, such as the speed and the number of opportunities for error, the reasons are clear why the client should co-operate to the best of his ability.

The writer, while a member of the New York Stock Exchange,

quoted Pennsylvania stock in the New York market. The quotation was cabled to the market in London, a purchase was made in London, the report cabled back to New York and the like amount sold by the writer in the New York market — all within five minutes.

Commission Rates

The rate of commission for a non-member of the New York Stock Exchange is the minimum commission, and the broker is privileged to charge more if the client is willing to pay more, but under no consideration can the broker charge less than the following rates, either directly or indirectly:

Commission Rates

New York and Philadelphia Stock Exchanges

Stocks selling under $10	$7.50 per 100 shares
Stocks selling at $10 and under $125	15.00 per 100 shares
Stocks selling at $125 and over	20.00 per 100 shares

Minimum Commission, $1.00

Commission rates on the Chicago Stock Exchange have been raised to the same schedule as above. Chicago minimum commission, $2.00.

Curb commissions are of a more arbitrary nature and it is well for the client to make inquiry in connection with the rates from the broker before giving the order. Possibly the following table is the most equitable arrangement at the present time and brokers' customers may use this table as a comparison with their charges:

New York Curb Stocks

Selling under $1	2% of total amount involved
Selling at $1 and under $3	$4.00 per 100 shares
Selling at $3 and under $5	5.50 per 100 shares
Selling at $5 and under $10	7.50 per 100 shares
Selling at $10 and under $125	15.00 per 100 shares
Selling at $125 and above	20.00 per 100 shares

Minimum commission $1.00

CHAPTER V

INTEREST CHARGES AND MARGINS

Call and Time Money Rates

Interest charges are determined by the average call money rate for the month, plus the average time money rate for the month, plus the rate of interest which the broker demands for his capital; these three items are averaged.

Time money and call money rates differ to a startling degree upon occasion; sometimes the broker pays higher for his time money than his call money and then again he may be fortunate in having a great deal of time money at 5 per cent when call money is soaring to 10 and 15 per cent. Thus a customer's interest charge per month depends to some degree upon the foresight of the broker in judging the interest rates.

Call money is money which is borrowed by the broker on any one day which may be called back by the bank on the next day or returned by the broker on the next day; and the interest rate on this money is changed, or rather renewed, every day if not returned.

Time money is money which is borrowed from a bank by the broker for a period of time at *one rate during that time* — for thirty days, for six months, for a year, or for over a year, the latter term meaning that money borrowed any time during 1923 would not be paid back until the second day of January, 1924.

How Kind of Securities Affect Rates

The type of security which the customer carries on margin also has a bearing upon the amount of interest he pays. Should a customer be carrying all industrial securities, his broker must pay higher interest for a loan secured by all industrial collateral, than if the collateral were evenly divided between rails and industrials.

A client who carries securities of one kind in a large amount such as, for example, five thousand American Car Foundry, might have to have a special loan made for him at a high rate of interest.

The client who carries in his account odd lots — amounts less than one hundred shares — should expect a higher rate of interest charge, since, as a rule, banks do not permit odd lots of securities in their loans and the trouble in handling these odd lots necessitates extra clerical work, and, therefore, extra overhead.

Unlisted securities — those not having a ready market — are not usually acceptable for loans, and in many instances, the broker finds it necessary to make a special bank loan so that in this case the interest rate is higher.

The broker's customer is charged a higher rate of interest than the average which the broker pays, because the broker deserves a profit for the cost of handling the marginal account.

Determining What Rates to Charge

There are a number of features in connection with determining this cost of handling the marginal account which the average customer does not usually take into consideration.

As an illustration, we give a $10,000,000 borrowing by the broker, and determine the daily rate. Each daily rate is added together during the month, and divided by the number of days to get the average rate for the month. Thus, if the average for each day of the month was 6 per cent, the average for the month would be 6 per cent. But suppose —

$500,000 Odd Lot Loans	12%
1,000,000 Special on Inactive Stocks	15%
3,000,000 Industrial Money	10%
2,000,000 Regular Money renewal	8%
3,500,000 At Renewal above Rate	9%

The broker was borrowing, in the first case, $500,000 and the collateral used for these loans was in odd lots, which made extra clerical labor. We will assume that the renewal rate for money on this particular day was 8 per cent and the odd lots in question were mostly industrial stocks. It would be perfectly

fair for the bank to charge the broker 12 per cent. We also find that the broker held for his clients securities calling for $1,000,000 of borrowing on stocks which were inactive, not having a ready market. Possibly some of these were traded in on the Curb or over the counter, and the fair rate on this would be 15 per cent. We also find that our broker was borrowing $3,000,000 on loans made up of industrial securities, and it was therefore fair to charge him 2 per cent above the renewal rate, or 10 per cent. There are on the list $3,500,000 of renewal loans of good securities which stand at 9 per cent. The reason that this last item is standing at 9 per cent is because it was borrowed previously at a high figure, and the banks loaning this money did not care to reduce the rate to the 8 per cent renewal rate of this particular day. Rather than pay off these loans and attempt to borrow in the general market at the renewal rate, the broker takes no chances and accepts a rate for renewal 1 per cent above the regular renewal rate.

The average rate for this $10,000,000 would be 9.85 per cent for the day, and if each day of the thirty days of November, 1919, had the same average rate, the broker would be justified in charging his customer $11\frac{1}{2}$ per cent for the money.

Renewal Rates Charged by Banks

The renewal rate is established at the money post on the New York Stock Exchange, and is determined by taking the average rate on the transactions up to about noon of each day, Saturday, of course, excepted. This rate, however, is not always observed by banks, and is merely one medium by which is determined a basis for operation. Banks whose loan clerks confer daily, make their own decisions regarding renewals. If the broker does not desire to accept the renewal, the loans will be called. There are banks (for example the National City Bank), which never loan money above 6 per cent, but after a period of high money, these 6 per cent banks do not reduce their rate so rapidly, and there is usually a tacit understanding between the broker and the bank of this type to permit a loan to stand at

6 per cent after it has been much higher, even when the renewal rate is as low as 2 per cent.

Why Brokerage Charges are Reasonable

Brokerage charges, both for interest and commissions, are doubtless lower for the amount of work done than in any other form of business enterprise. The risk involved on the part of the broker is very real and one error perhaps wipes out the profits of many transactions.

The writer at one time had an order to buy five hundred shares of stock, on which the commission would amount to $75. Through no fault of his own, errors were involved in the transaction, and the loss which resulted was evenly divided between the writer and another broker, with the result that the writer was out $1,400 on a transaction upon which he was to receive commissions of $75.

If the broker charges the customer two or three per cent above the average interest rate for the month, he is not charging too much because there is a possibility that some of his customers will not "make good" on their marginal requirements, and in an active market before the account could be liquidated the broker would stand a loss. This was the situation once with the writer, where the interest charge against the client for one month amounted to $25, the profit $5; and the account was sold out at a loss to the broker amounting to over $200.

The overhead cost of brokerage business in former days was taken care of to a great extent by the profit made from the interest charges, but in recent times this is impossible. Higher rentals in the district where every inch of space is worth its "weight in gold," efficient and therefore high salaried clerks, intricate and highly developed account systems, hundreds of necessary governmental and state reports on taxation, heavy telephone charges, tremendous telegraph private wire charges, and incidentals too numerous to mention, make it necessary for commissions to be applied to take care of some of the overhead, instead of being direct profit through investment in a seat on the

Exchange. Furthermore, custom has brought about Service Department activities of a costly nature, which is not directly productive of commissions, and this must be added to the costs. The Service Department, inclusive of advertising expenditures, in one *medium-sized* brokerage firm costs that firm $25,000 a year.

What are the Marginal Requirements?

At the time of the well-known investigation of the Stock Exchange by Ex-Governor Hughes' committee, the report stated that there was nothing of a detrimental economic nature in marginal transactions; but recommendation was made to the brokerage fraternity that marginal requirements from customers be advanced to a more protective plane. To a great extent this has been carried out.

The following margin requirements are those which are more or less customary in use at the present time. In connection with Curb securities, however, *none should be carried on margin*, as the possibilities for loss and for violent fluctuations are serious.

Margin Requirements
New York, Philadelphia and Chicago Stock Exchange

Selling under $25	$33\frac{1}{3}\%$
Selling at $25 and under $50	10 points
Selling at $50 and under $75	15 points
Selling at $75 and under $100	20 points
Selling at $100 and under $125	25 points
Selling at $125 and under $200	40 points
Selling at $200 and above	On request

New York Curb Market

Selling under $15	$33\frac{1}{3}\%$
Selling at $15 and under $25	5 points
Selling at $25 and under $50	$7\frac{1}{2}$ points
Selling at $50 and under $100	10 points
Selling at $100 and under $125	15 points
Selling at $125 and under $200	20 points
Selling at $200 and under $300	30 points
Selling at $300 and above	50 points

Keeping Good the Margin

Since all the profit of a transaction, or the loss, accrues to the customer and the broker has no interest in the account other than the actual amount of money which he has loaned to the client, it is the place and the duty of the client to give the broker the utmost in co-operation in keeping his margin at a point, or above the point, which the broker requires.

Every careful brokerage firm makes an agreement with the customer when the account is opened which is to the effect that the broker will have the privilege of liquidating the account to protect said broker, when it is believed that the time has come for this action; with the understanding, of course, that due notification be given to the client and, whenever possible, time to build up his margin.

Calls for margin in a very active market may be made by telephone, and followed up by letter confirmation, and the letter, if sent to the last address given by the client, stands as sufficient evidence of notification. The laws relating to broker and client in connection with this margin feature, and especially in connection with the selling out or the buying in of an account, are numerous and intricate, and hence will be taken up later on in a separate chapter (see Chapter VIII).

The broker has the privilege of determining whether the margin given him is what he desires or does not want. Cash, certified checks, bank drafts or accepted checks are good. Margins submitted in the form of other securities, bonds or stocks, or notes may not be deemed acceptable by the broker.

The margin clerk and the bookkeeper of a brokerage firm as well as the Cashier, are always ready to communicate either directly, or through the customer's man, any information regarding the account of the client to the client himself. Hence the client who does not keep his account in good condition is not co-operating properly with his broker. And a broker, likewise, who would accept, or continue to accept, an account which is not properly conditioned, is a dangerous one with whom to deal, for carelessness in the brokerage business is the worst of all evils.

Typical Illustrations

We have noted above what margin consists of and how it is cared for, and when we discuss the broker's statement following this paragraph, we will discover just what margin means. The following illustrations, taken from the writer's book entitled "You and Your Broker," can hardly be improved upon by new illustration.

1. Smith buys 100 Steel com. at 113 and gives his broker $2,000. The broker figures the margin by dividing the 100 shares into the $2,000 which gives Smith 20 points margin.

   (For the purpose of illustration and to avoid too many figures, there will be omitted from the illustrations the items of commission and incidental charges.)

If Steel com. declines to 93, a twenty-point loss, the broker would sell the 100 shares, provided Smith did not place more margin. The stock cost $11,300 and was sold for $9,300, a difference of $2,000, just the amount of the margin.

2. Smith gives the broker $2,000 Reading gen. 4% bonds, market value $2,000 and buys 100 Steel at 113. Every $1,000 bond is equivalent to 10 shares of stock in margin figuring. Smith has now 120 shares of stock or a margin of 16⅔ points. The broker has loaned Smith the full purchase price of the Steel, $11,300. If the price of Steel drops to 95 and the value of the bond to 90 the margin will be wiped out. The broker will sell 100 Steel for $9,500 and the bonds for $1,800, a total of $11,300, which he originally invested for Smith.
3. Smith gives his broker the $2,000 bond and buys 100 Steel at 113 as above, but in addition he purchases 1,000 Success Mines on the Curb at 45 cents ($450). The average broker will not even include this stock in the margin and will deduct the $450 at once from Smith's margin credit. If the bonds drop to 90 ($1,800) the broker will sell the Steel at 99½.

First position in example 3:

$2,000 Rdg. 4% bond	$2,000
100 Steel	11,300
Value of account	$13,300
Cost of 100 Steel	11,300
Equity or Margin	$2,000

Second position in example 3:

$2,000 Rdg. 4% bond	$1,800
100 Steel	9,950
	$11,750
Less cost of Success	450
Value of account	$11,300
Cost of 100 Steel	11,300
Equity or Margin	$ 0

In the third example shown, the broker would protect himself by placing a stop order on Steel at 99½ and the Rdg. bond at 90. When these two were sold the account would be even, eliminating the matter of commissions and interest, and the broker would probably turn over the Success Mines to the customer to do with as he desired. When the stock declines or advances, as the case may be, so as to come near the limit of margin furnished, the broker may demand any one of three actions by the customer to supply additional margin, take up the account in full direct, or have it transferred to another firm.

Selling price — Debit Balance ÷ No. Shares = Point Margin.

The Margin on a "short account" can also be in formula:

Credit Balance — Purchase Price ÷ No. Shares = Points Margin.

CHAPTER VI

THE BROKER'S STATEMENT

Checking Over Our Actual Account

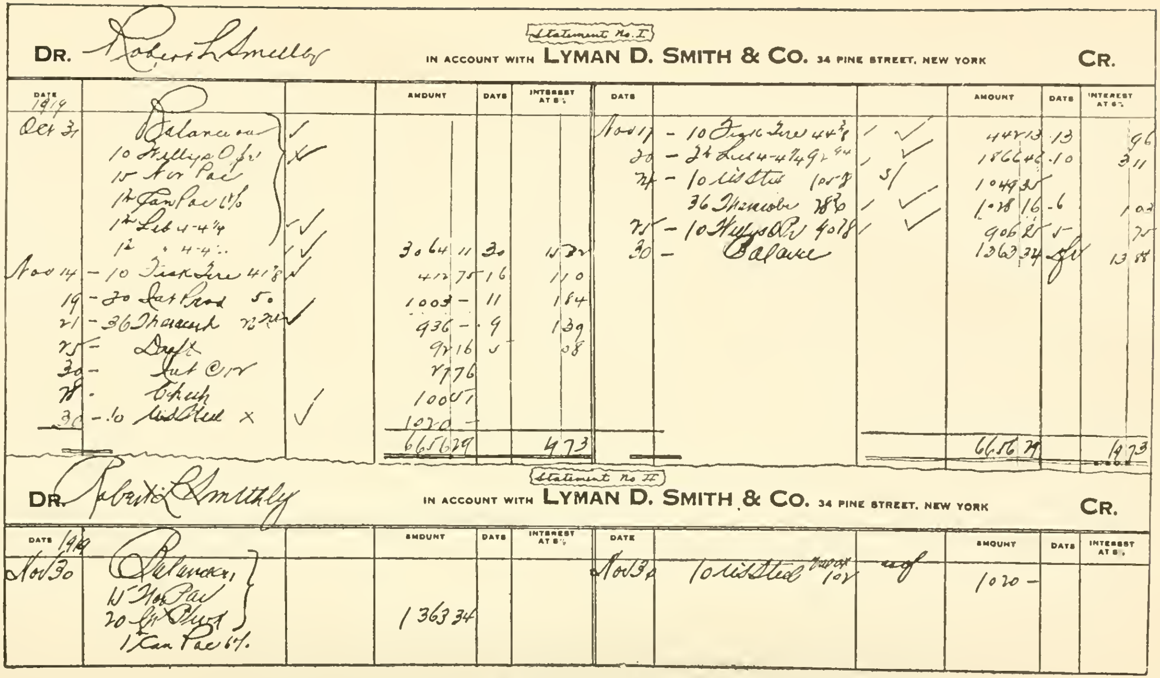
Nine-tenths of all clients of a brokerage firm accept their statements without any checking or without going over them carefully. Inasmuch as broker's bookkeepers are human beings, mistakes are liable to occur and, in consequence, if a mistake is made the chances are that the client will not discover it.

The check upon the broker's statement which clients should make, can best be illustrated, it appears, by taking an actual statement and working through it point by point. In this instance, the statement used is of a very small account of the writer, which contains, however, almost all the elements which go to make up the average statement. The statements are marked "One," "Two," "Three," and "Four." Let us discuss them informally, the writer being permitted to use the first person; and the client, we suggest, referring to the various statements as their transactions are discussed.

Statement No. 1

In statement No. 1 (see figure on next page) on October 31st, 1919, I had in the possession of my broker, ten shares of Willys-Overland preferred, fifteen shares of Northern Pacific, $1,000 par value Canadian Pacific 6 per cent note, and $2,000 Liberty 4th $4\frac{1}{4}$ per cent bonds; and against this was a debit balance of $3,064.11, which was the amount I owed my broker. Thirty days' interest on this amount at 6 per cent was $15.32, because the interest is figured to the end of each month, and *compounded twelve times a year.*

On the 14th of the month I bought ten shares of Fisk Tire at $41\frac{1}{8}$; it will be noted that $1.50 commission is added to this item



Statement No. I

DR. Robert L. Smith — IN ACCOUNT WITH LYMAN D. SMITH & CO. 34 PINE STREET, NEW YORK — CR.

DATE 1919			AMOUNT	DAYS	INTEREST AT 6%	DATE			AMOUNT	DAYS	INTEREST AT 6%
Oct 31	Balance on 10 Willys O. pr. 15 Nor Pac 1st Can Pac 6% 1st Lib 4-4¼ 2 " 4-4¼	✓	3064 11	30	15 32	Nov 17	10 Tide Water 44⅞	✓	447 13	13	96
Nov 14	10 Tide Water 41⅞	✓	412 75	16	1 10	20	24 Lib 4-4¼ 92.94	✓	1866 42	10	3 11
19	20 Sat Prod 50		1003 –	11	1 84	24	10 Mid Steel 105⅛		1049 35		
21	36 Thermid	✓	936 –	9	1 39		36 Thermid 28⅞	✓	1038 16	6	1 03
25	Draft		98 16	5	08	25	10 Willys O. pr. 90⅞	✓	906 25	5	75
30	Int @ 6%		77 76			30	Balance		1363 34		13 88
30	Check		100 57								
30	10 Mid Steel ×	✓	1020 –								
			6656 79		4 73				6656 79		14 73

Statement No. II

DR. Robert L. Smith — IN ACCOUNT WITH LYMAN D. SMITH & CO. 34 PINE STREET, NEW YORK — CR.

DATE 1919			AMOUNT	DAYS	INTEREST AT 6%	DATE			AMOUNT	DAYS	INTEREST AT 6%
Nov 30	Balance, 15 Nor Pac 20 Gt Nthn pr 1 Can Pac 6%		1363 34			Nov 30	10 Mid Steel 102		1020 –		

FIGURE 2: BROKER'S MONTHLY STATEMENT TO CUSTOMER

The bookkeepers have carried forward to this November statement the list of securities I held on the last day of the month preceding. See first five entries at the left. The various transactions entered into through this firm during November are next shown, some of them debits and some credits. These are described in the text.

These statements were prepared by the bookkeepers in the customary way and when received were carried in my pocket until much crumpled. This accounts for the somewhat rough appearance of the engravings. But, while rough, they represent actual statements; and it is believed that subscribers will prefer this realness to more finished, but fictitious, statements which might have been presented.

to bring the amount to $412.75. On the 17th of the month, I sold this Fisk Tire at $44\frac{3}{8}$, which would be $443.75. From this has been deducted $1.50, leaving $442.25, and 12 cents for State and Federal taxes, so that the extension is $442.13.

The client will note that in every instance, with the exception of a short sale, interest is credited and debited at 6 per cent, and that the total difference in this particular No. 1 statement is a debit against me at the end of the month, amounting to $13.88. But inasmuch as the proper average rate during the month amounted to 9 per cent, I am charged 12 per cent, and on the 30th of the month my account is debited with $27.76.

A Syndicate Allotment

On the 21st of the month, I purchased thirty-six shares of Maracaibo at $26 a share. It will be noted that no commission has been charged. The reason for this is that I became part of a syndicate, and my allotment amounted to thirty-six shares; hence, there was no charge necessary other than the actual debit of the amount, which was thirty-six times $26.

A Short Sale

On the 24th of November, I sold ten shares of United States Steel short at $105\frac{1}{8}$ and the proper extension is $1,049.35, but I am allowed no interest on this amount because this stock was borrowed against my short sale and that same amount of money was paid out to the broker from whom the ten shares were borrowed; and, in almost every case, if there is interest accruing from the money paid out for borrowed stock, it goes directly to the broker.

On the thirtieth of the month, the clients will note that the bookkeeper has placed a debit in my account of ten Steel common amounting to $1,020.00. Now, I did not "buy in" that Steel and was still short of the stock; but at the end of each month short transactions, at no matter what price they have been sold, are placed at the market price on the last day of the month, because the broker continued to borrow this stock at the

market price, and received interest at the market price; and, therefore, as a matter of convenience, so as to separate the short from the long account, such an arrangement is effected.

In looking over my statement, it will be discovered that if this arbitrary transaction had not been entered, my debit balance, instead of being $1,363.34, which would be the basis for figuring interest the coming month, would have amounted to $29.35 more; so, therefore, on account of the drop in the market, I am the gainer by not having interest charged me the coming month on that $29.35.

Statement No. 2

The second statement (see the preceding figure) shows my long and short account on the last day of November.

It is well to note that when I sold my 2M Liberty $4\frac{1}{4}$'s on November 20th, that I was given credit for the accrued interest on these bonds since the last interest period, when the coupons were taken off, since it is essential that the customer assure himself that he receives proper interest. In this case the bonds were sold at $92.94, per $100 bond, which amounted in all to $1,858.80. Interest on these bonds was paid previously on October 15th, so that there were thirty-five days interest due me on 2M at $4\frac{1}{4}$ per cent, which amounted to $8.26, thus bringing my total to $1,867.06; but I was charged 60 cents commission so that my actual total is as designated on the statement — $1,866.46.

Statement No. 3

On the third statement (for which see the next page), it will be noted that I was still short ten shares of United States Steel common, and during the time that I was short of the stock, there was a dividend declared amounting to $12.50 on my ten shares.

Inasmuch as I was borrowing these ten shares from some other broker, it was necessary for me — through my broker, of course — to pay him this dividend; and therefore my account was charged $12.50.

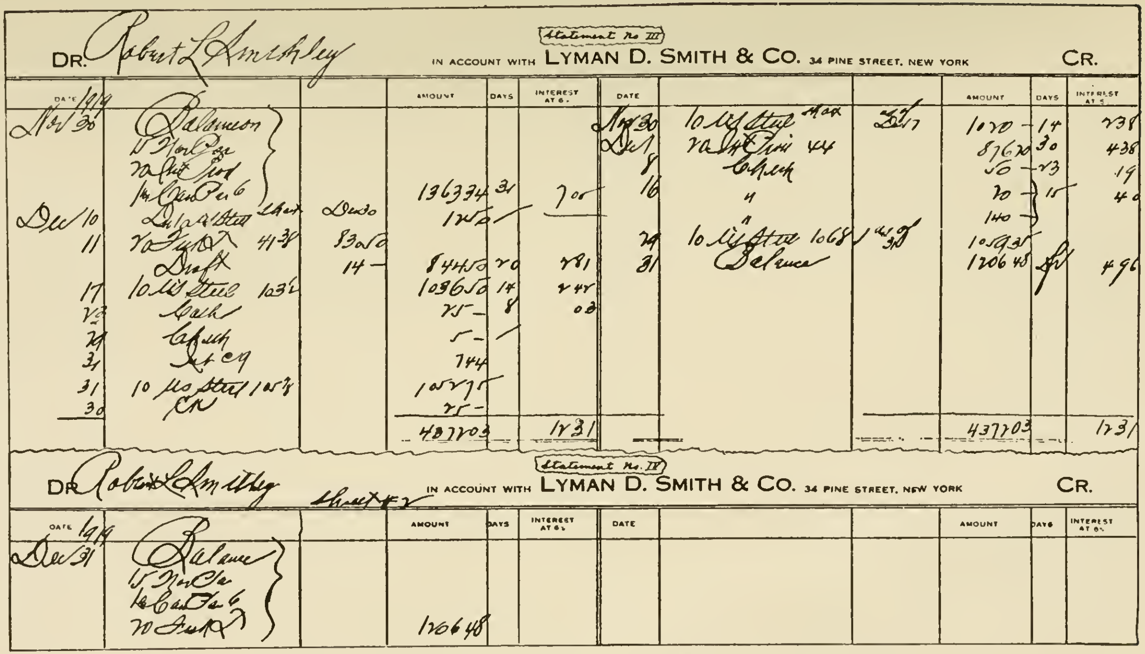


FIGURE 3: BROKER'S MONTHLY STATEMENT TO CUSTOMER

This represents a continuation of the same account shown in Figure 2 on a preceding page.

These statements are commonly made out on large size blanks, the original of the two here shown being seventeen inches wide. However, the size is, of course, merely a detail of bookkeeping. What the essential features are I have attempted to point out in the accompanying text.

Now, I originally sold the ten shares of Steel so that I was given credit for \$1,049.35, but for the sake of adjusting the short account, I was made short on December 1st at \$1,020, because the stock sold at \$102 on that date. Thus I had an apparent profit of \$29.50. From this apparent profit must be deducted \$12.50, which was the charge against me for the dividend, leaving \$17 profit. But on December 17th I purchased the stock, or covered my short sale, at $103\frac{1}{2}$, which debited my account \$1,036.50; so that I had a paper loss during the month of the amount between \$1,036.50 and \$1,020, or \$16.50. This loss subtracted from my paper profit of \$17.00, gave me an actual profit on the transaction of 50 cents — less, of course, whatever interest was charged against me from the purchase on the 17th which shows \$2.42, and the interest at the first of the month on \$1,020, which shows \$2.38 or a loss of 4 cents interest at 6 per cent. Since I was charged 9 per cent, my loss would be one-third more or a total of $5\frac{1}{3}$ cents, thus reducing my profit to $44\frac{2}{3}$ cents on this particular transaction.

The other items on the statement do not offer any special difficulty to the reader, for I am charged with interest items, charged with cash and checks which I have withdrawn, and credited with monies which I placed in the account on December 8th and 16th.

The subscriber should be careful to figure his tax charges properly. They amount on the New York State tax to 2 cents a share on every one hundred dollars par value, and 2 cents a share for Federal taxes on the basis of every one hundred dollar par value; but in no case will the tax be less than 2 cents for the Federal and State items, based both on the par value and the selling price of the stock as hereafter described.

Proving the Statement

It is often wise for the customer, and it is necessary for the student who wishes to secure a thorough understanding of the subject, to prove the account. This may be done as shown in the accompanying statement.

PROVING THE ACCOUNT

October 31st		
10 Willys Overland Pfd. 90		$900.00
15 Northern Pacific 90		1,350.00
1M Canadian Pacific 6% Notes 100		1,000.00
2M Liberty 4th 4¼% 92		1,840.00
		$5,090.00
Debit Balance in Account		3,064.11
October 31st Equity		$2,025.89
55 shares in account — Margin over 36 points		
Equity		$2,025.89
Profit 10 Fisk Tire		29.38
Profit 2M Liberty Bonds		26.46
Profit 36 Maracaibo		92.16
Loss 20 Int. Products	$127.80	
Draft	92.16	
Interest	27.76	
Check	100.51	
Profit 10 Steel Com. (short) to balance account		29.35
Profit 10 Willys Pfd.		6.85
Dividend 10 Steel (short)	12.50	
Draft	14.00	
Loss 10 Steel on Purchase from Short Account	16.50	
Cash	25.00	
Check	5.00	
Interest	7.44	
Profit 10 Steel		6.60
Check	25.00	
Deposited 50 — 20 — 140		210.00
	$453.67	$2,426.69
December 31st		453.67
		$1,973.02

15 Northern Pacific 90	$1,350.00	
1 M Canadian Pacific 6% 100	1,000.00	
20 Fisk Tire 41⅜	830.50	
	$3,180.50	Proof
Debit Balance	1,206.48	
	$1,973.02	

Keeping Essential Records

When the customer receives any acknowledgment or report from his broker, he should keep a careful record in his own books of account and check these books of account with the brokerage statement at the end of each month. Most of the brokerage firms supply their clients with memorandum and account books of this character ruled out in the form of a statement, but it is also desirable to keep a careful record for income tax purposes. We enclose with this Text a copy of one of the best forms of security registers which has been devised.

There is no universal form of statement rendered by brokers, but all forms used can easily be reduced to the fundamental elements — Cash, Credits or Debits, Purchases or Sales, and Interest.

When a client is actively engaged in stock-market transactions it is sometimes advisable to have the firm separate his short account from his long accounts, and give him two separate statements monthly.

Watching Special Points

The broker, as a rule, will allow a credit interest on margin deposited for a short account, but not on the credit balances.

When a stock which a client holds loans on the Stock Exchange at a premium, *i.e.*, where there are so many others short of the stock that the supply is limited and the broker is willing to give his money at the market value of the stock to borrow the stock, without receiving interest, and in addition pay a premium for the privilege of borrowing the stock — this premium belongs to the customer who is long of the stock. It is desirable for the customer to keep himself informed regarding the loaning value of the stocks of which he is long, so that he may know whether or not the broker has given him this credit on the premiums.

All the dividends accruing on stock purchased belong to the customer, and not to the broker, and the broker is liable to the customer for the collection of these dividends. When the check comes to the broker from the company which has declared

the dividend, the broker should apportion this dividend in the right proportions among his customers.

But inasmuch as the customer's stock is likely to stand in the broker's name, and be combined with other shares of stock of the same kind owned by other customers, it is quite possible for the broker to fail through an error to credit these dividends.

As soon as the stock sells ex-dividend on the Exchange, the dividend, though it may not be paid for months afterwards, nevertheless belongs to the customer who is long of the stock on that particular day. It is not the custom to credit this dividend to the customer until it is received, so that oftentimes a client may sell his stock and close out his account before the dividend is actually paid. This is another matter which necessitates careful watching on the part of the customer to see that he collects this dividend even should the account have been closed.

CHAPTER VII

TRANSFERS AND DELIVERIES

Why Stocks Should be Transferred to One's Own Name

Whenever possible, if a stock is owned outright, the client should have it transferred to his own name. It is hardly necessary to go into details as to the reasons for this, but possibly it is well to summarize them.

1. In case of any controversy, so long as the stock is in the customer's name he has possession; and it is much easier to prove possession with the stock in one's own name than if it is in some one else's name.
2. Unless the customer has the stock in his own name, always assuming that he owns it outright, he may not receive the dividends which he is due to receive. If the stock is in the name of some one else, it may be very inconvenient to collect these dividends from that some one else, and should the stock be in the name of a broker, the broker is entitled to charge a commission which is deducted from the dividends.
3. In case the company issues rights or privileges which have an actual market value, the client perhaps fails to receive the same and thereby incurs a loss.
4. Should, perchance, the certificate of stock become lost, it is much easier to trace the certificate, stop transfer, and eventually recover it, than if the certificate stands in the name of some one else. In the latter case, permission must be obtained and legal requirements met before actual transfer can be established and recovery made.
5. If a stock is held in some one else's name after purchase, there is always a possibility that the previous owner may have died, in which case it might be difficult to transfer it, especially if this were known.

6. In case of the death of the owner of the certificate, it is much easier to arrange a settlement and effect transfer to the trustees or executors or to the beneficiaries.
7. Unless a stock is transferred, there is a possibility that the certificate may be a forgery, which would not be known until it was too late to make recovery.
8. For sanitary reasons it is advisable to transfer a certificate, for a clean, new certificate is a better possession than one which has gone through the hands of hundreds of people, and which has stamped on it powers of attorney so thickly that it is hard to decipher them.
9. By giving a name for transfer at once, or to the broker on the same day on which the purchase is made, the customer is likely to save himself extra tax charge.

Additional Suggestions

Other suggestions dealing with this matter of transfers are:

1. Become thoroughly acquainted with the body of the certificate or what is written on the face of the bonds or its coupons.
2. Find out at once the customary date on which the stock is ex-dividend and pays the dividend, or on which date the coupons are due on the bonds.
3. Collate every scrap of data which is sent out by the company relating to the stock or bond which is held; become acquainted with its import and file it away with the certificate.
4. Become thoroughly acquainted with the purpose and the value of any rights or privileges of subscription when they are offered by the company. For example, at the present time the General Electric Company once a year customarily declares a dividend in stock. Is it better to retain these new shares even though they are in scrip or is it better to give the company the privilege of selling these shares at the market price and remitting to you the balances due?

Delay in Transfer

Sometimes it so happens that, after a customer has purchased his security and given the broker instructions to transfer, there is a long delay before the certificate arrives with the instructions fulfilled. If the delay is more than two or three days, it is advisable to communicate at once with the broker. The reasons for possible delay may be

1. Carelessness or inattention on the part of the broker.
2. The non-delivery of the stock to the broker by the seller.
3. The transfer books of the company may be closed for a period of time and therefore the broker holds the stock until such time as the books are opened for entering the transfer and issuing the new certificate.
4. The broker's instructions from the client may not be clear as to sending the certificate to the client.
5. In any event, if you own stock outright with your broker, against which there is no obligation on your part, it is your duty to make certain that such securities are not held by the broker in the open accounts of his firm or used by him in connection with other securities as collateral. Such paid-for securities should be taken out of the firm's general business and placed in a separate envelope marked as the property of the customer who owns them, and notation of such arrangement and proceedings should be made upon the ledger account of the customer.

Care in Signing Proxies

The owner of a stock certificate should never sign an authorization or a proxy permitting the directors or voting trustees or any coterie of stockholders to act upon and vote his shares unless he is thoroughly acquainted with the proceedings about to occur.

The signing of an authorization involving expenses may result in the owner of a security becoming liable on a certain date for such expenditures which would not be called for until after the stock had been sold by him, and so in the possession of

another person, yet he would be called upon for payment of his former proportion of expenses.

On the other hand, should it seem that the action proposed is for the best interests of the stockholder, he should co-operate with those requesting his proxy by sending it in as requested.

Lost or Stolen Certificates

A coupon bond payable to bearer or a stock certificate assigned in blank is good in the hands of an innocent and bona fide holder who acquires it by honest purchase at a fair market price without knowledge that it was fraudulently obtained by any previous holder even though it may have been lost by or stolen from its owner.

The recovery of a lost or stolen bond or stock certificate can rarely be accomplished unless it is found in the hands of the finder or of the thief or his accomplice or some person who has obtained possession of it by fraud, or under circumstances which will convict him of knowledge or suspicion of fraud on the part of the one from whom he received it.

The fact that a lost or stolen bond or stock certificate has been advertised by its number does not invalidate the title of an innocent holder, as it cannot be held that the purchaser of a bond or a stock certificate is bound to have knowledge of the advertisement.

A registered bond is without coupons (in most cases) and is filled in with the name of the registered owner and is payable to him or his assigns. It is not available to any other person until properly assigned or transferred by the registered owner. If a registered bond (as to principal and interest) or a stock certificate, not assigned in blank, is lost or stolen the owner can secure a new bond or certificate by furnishing a bond of indemnity.

Although the requirements of different companies show considerable variations, yet the following are the *general requirements* to secure a duplicate for a lost or destroyed certificate:

1. A formal notice of the loss, with request to stop transfer.
2. An affidavit, signed by the registered stockholder, stating as fully as possible, particulars of the loss.

3. Notice of loss must be sent to the Secretary of every Exchange upon which the security is traded.
4. An advertisement of the loss must be inserted in three or more issues of a prominent daily newspaper, in each city where such Exchanges are located. Copies of such newspapers, advertisements included, must be filed with the company.
5. A surety bond in twice the par value of the lost certificate, the form of which is to be approved by the company, must be given by the owner of the lost certificate.
6. Where all above requirements have been fulfilled and consent has been received by the company from the Exchanges interested, a duplicate certificate will usually be issued after a period of about six months from the date of the loss.

Transfer Tax

The subject of transfer taxes is one which necessitates a long and careful study, but for the layman it is essential to know only the fundamental requirements of the State.

There are four systems of taxation which affect the buyer or seller of stocks. Each system is based on the same scale and, in each case, a revenue stamp is used on the sales ticket. These are: The Federal Tax; the New York State Tax; the Massachusetts State Tax; and the Pennsylvania State Tax. The State Tax is based on the par value of the stock and is determined at the rate of two cents a share or fraction of a share, of the par value of $100. If the stock is of no par value, all the state taxes class no par as though it were $100.

On all sales or agreements to sell or memoranda of sales or deliveries of stock or transfer or local change of shares or certificates of stock to any other individual, it is necessary to affix Federal revenue stamps, and attach them either to the certificate itself or to the memorandum of sale, to the amount of two cents for each $100 of face value or fraction thereof. This includes stocks with no par or face value, and if the actual value or the

sale value is in excess of $100 per share, there shall be an additional tax of two cents on each $100 of actual value or fraction thereof. The broker takes care of this, charging the same to the customer's account.

The broker's client must realize, first of all, certain facts. In the first place the state laws assume that every transfer of stock constitutes a sale. This may not be the actual case, but no affidavit can make the Government change its mind. In the second place, there exists no broker who desires to pay his double tax and go into detailed explanations with his customer. In the third place, the laws of the various stock exchanges prohibit the broker from assuming this extra charge unless the said broker is actually at fault. The above facts, therefore, are sufficient evidence in themselves that the broker has every reason to evade this extra charge if it is possible.

General Regulations Covering Transfer

I. Registration

1. In transferring stock or bonds to the name of an Individual or Firm, the *full* name should be given as it is usually signed without prefix, suffix, or title.

2. When a transfer is made to the name of a woman, the prefix *Miss* or *Mrs.* should be given, and the security registered in her individual name, Thus, *Mrs. Jane Doe* and not *Mrs. John Doe.*

3. The titles of Corporations or Associations should be stated in full, including the prefix *The* when applicable.

4. The name of a Trustee or Trustees should be followed by a brief description of the trust.

5. The name of an Executor or Administrator should be followed by a brief description of the will or estate.

6. Transfers to the *Estate of John Doe* are usually impossible. *Richard Roe, Executor* (*or Administrator*) *of the Estate of John Doe*, is preferable.

7. Usually Executors, Administrators, or Trustees, can not transfer to themselves as individuals. If necessarily done, the reason and justification therefor should be shown by a court order or otherwise. The best way is to transfer to a third party and retransfer to name desired.

8. In all cases the addresses of transferees should be stated with particularity.

9. Persons or associations having securities transferred to themselves from time to time are requested to state the name uniformly, in order to avoid the opening of unnecessary accounts and the confusion and inconvenience consequent thereon.

If *John Doe* be a registered holder, the name should not be given as *Jno. Doe* or *J. Doe* at the time of subsequent transfers; and the name *Richard Roe & Co.*, should not afterwards be stated as *Richard Roe & Company* or *R. Roe & Co.*

II. Assignment

1. The assignment on the reverse side of a certificate or bond, must be signed, witnessed and dated. The name of the person constituted as attorney to make the transfer upon the books of the Company, should be omitted.

2. Signatures to such assignments must be technically correct; that is, they must correspond in *every* particular with the name in which the security is issued, without abbreviation, enlargement or change.

(*a*) The assignment of a certificate or bond registered in the name of John Henry Smith, must not be executed in the name of John H. Smith, J. Henry Smith, or J. H. Smith. If, however, a certificate in the name of John Henry Smith has been signed "J. H. Smith," the incorrect signature should not be erased, but the proper signature "John Henry Smith" should be signed either directly above or below the incorrect signature and each should be witnessed.

(*b*) Titles, if any, must be prefixed or suffixed to signatures, exactly as they appear on the face of the security. If the prefix *Miss*, *Mrs.*, *Rev.*, *Dr.*, *Capt.*, *Baron*, etc., constitutes a part of the name of the holder as registered, the signature must include such prefix.

(*c*) *Brothers* or *Bros.*, must be written as it appears in the security.

3. When a security has been issued in a name incorrectly stated or wrongly spelled, the assignment must be executed both in the name as registered and in the correct name.

4. The assignment of a security registered in the name of *John Doe and Richard Roe* must be executed by both.

5. The assignment of a security registered in the name of a woman subsequently changed by marriage, must be executed *Jane Doe, now Jane Roe.* Evidence of the marriage and of the holder's identity, may be required.

6. A detached assignment must contain provision for the appointment — *irrevocable* of a person (the name being left blank) as attorney to make the necessary transfer upon the books of the Company, and a full description of the security; that is, Name of the Company, Issue, Certificate or Bond Number, and the Face Amount.

(*a*) A separate assignment should accompany each certificate or bond.

7. Any alteration in the wording of an assignment or appointment of an attorney should, whenever practicable, be attested by the signature of every person joining in the execution of the assignment as the assignor or as one of the assignors; and must in any event be attested by that of a person or persons thereunto authorized.

III. Assignments by Corporations or Associations

1. When a transfer is to be made from the name of a Corporation or Association, the certificate or bond must (subject to paragraph 2 below) be accompanied by a copy of a resolution of the board of directors or trustees, authorizing its transfer and naming the officer delegated to execute the assignment.

(*a*) This copy must be certified by the secretary of the Corporation as a true copy from the minutes.

(*b* If such a resolution is of a continuing effect, the secretary of the Corporation must certify that the resolution is in effect at the time of the intended transfer.

2. If a transfer is to be made on the authority of a by-law, the security must be accompanied by a copy of the by-law, certified by the secretary of the Corporation as being in effect at the time of such intended transfer.

3. The corporate seal (if the Corporation or Association have one) must be impressed upon the assignment, whether on the security itself or detached, and likewise upon all attestations.

(*a*) If a Corporation or Association have no seal, attestations must be acknowledged before a Notary Public.

IV. Assignments by Trustees

1. When a certificate or bond is to be transferred from the name of a Trustee or Trustees, a certified copy of the instrument creating the trust must be submitted.

2. Evidence is required of the appointment of a Trustee or Trustees, (if other than as stated in the creating instrument); of his or their acceptance of the trust, and retention of it at the time of the intended transfer.

3. Assignments by trustees require the signature of all living Trustees. The signature of one alone is not sufficient to justify a transfer of stock or bonds. (See Section V, paragraph 4.)

(*a*) The decease of a former co-trustee should be proved by a certificate of death when obtainable, or otherwise by credible affidavit, as a condition precedent to transfer.

V. Assignments by Executors and Administrators

1. A certificate or bond offered for transfer from the estate of decedent intestate, must be accompanied by a certificate of the granting of Letters of Administration, and evidence of the retention of the trust by the Administrator or Administrators at the time of the intended transfer.

2. A security offered for transfer from the estate of a decedent testate, must be accompanied by the following: —

(*a*) A certified copy of the Last Will and Testament of the deceased.

(*b*) A certificate of the appointment of an Executor or Executors, and evidence of his or their retention of the trust at the time of the intended transfer.

3. Presumptively, it is within the power of executors, or either of several executors alone, to sell and transfer the assets of a decedent. A will may, however, require joint action of all the executors.

4. If an assignment is proposed by executors more than eighteen months after the decedent's decease, a presumption arises that the executors have become *Trustees* and must be so treated.

5. Evidence must be furnished of the payment of any inheritance or succession tax imposed by the laws of the States interested, or in lieu thereof, a waiver of notice issued by the Comptroller, Auditor, or other proper office of such States.

(*a*) If the decedent was not a resident of the State of New York, and died subsequently to July 21, 1911, a waiver by the Comptroller of that State will issue of right, upon application therefor with a proper presentment of the facts.

VI. Charges for Registration and Transfer

1. When a certificate of stock is surrendered and a greater number of certificates is issued *in the same name, or in any one name*, for a like aggregate number of shares, a charge of 25 cents each is usually made for the additional certificates. There is usually no other charge for the transfer of stock.

2. No charge is made for the registration of bonds, nor for the transfer of registered bonds. A charge of $1.00 per bond is generally made to cover the actual cost of restoring registered bonds to coupon form, when such restoration is provided for by the mortgage securing such bonds.

VII. Taxes on Registration and Transfer

1. The State and Federal transfer tax on stock of any Company transferred within the States of New York, Massachusetts, and Pennsylvania, amounts in each case to 2 cents per $100 of par value or fraction thereof. The duty to require payment in advance of making a transfer, is imposed upon the Companies by law.

2. There is now no tax on the registration or transfer of bonds. (See Section V, paragraph 5, as to inheritance taxes on decedents' estates.)

VIII. Transfers in Error

1. In case a name has been filled in for transfer in error, some companies will allow the name to be erased if the erasure is guaranteed by a Stock Exchange member of firm, and will correct if guaranteed against loss by a Stock Exchange member or firm. Other companies furnish forms of their own to be filled out, while the Penna. R. R. Co., and a few others require a detached power of attorney, signed by the original stockholder before making correction.

CHAPTER VIII

LEGAL RELATIONS BETWEEN BROKER AND CUSTOMER

What the Legal Relations Are

Inasmuch as the broker is an agent, and essentially an agent, the Law of Agency applies in the relations between him and his customer in the execution of orders for purchase and sale. When the broker assumes the responsibility of taking an account on margin, however, he leaves his position as agent and assumes a new function. He becomes really a principal in the transaction because he advances part of the money for the purchase of the securities and agrees to hold and carry the stocks. He therefore assumes a contract of which he is one of the principals, and the customer the other.

What the Broker Undertakes to Do

Summing the matter up in a general way, the broker undertakes

— To buy or sell for the customer such stocks as a customer indicates.

— To advance all the necessary money upon a certain agreed-upon margin for the financing of the transaction, which margin is furnished by the customer.

— To carry or hold these securities for the sole benefit of the customer, so long as the customer maintains and keeps good the agreed-upon margin, until such notice is given by either one of the parties that the transaction must be ended.

— Any appreciation in the value of the securities accrues to the profit of the customer, and not to the broker, and any depreciation is to the disadvantage of the customer and not to the broker.

— To have under his control at all times and ready for delivery within a reasonable period, the securities which he has purchased, or an equal amount of the same number of shares or bonds of the same stock or same loan.

— The broker agrees to deliver to the customer when required by the customer and upon said customer's receipt, that which he has purchased when the balance is paid in full, including commissions and interest.

— The broker agrees to pay to the customer the net proceeds accruing from the sale of any securities which have been delivered to him for sale, less his commission and less the required taxation which must be paid for the customer.

What the Customer Undertakes to Do

The customer, on his part, undertakes

— To maintain at all times a certain percentage of margin, based on the current market value of the shares or bonds.

— To maintain such margin according to the fluctuations of the market.

— To take up these shares which he may have purchased or to buy in the shares which he may have sold short, when required by the broker; and to pay the difference between the amount advanced by the broker and himself.

Laws Bearing Upon Margin Calls

The laws relating to margin calls are based upon specific cases which have been decided in the Courts. While it is impossible here to enter deeply into the legal side of marginal transactions, the essential point is that if the broker has not used due diligence in the protection of his clients' interests, the client may recover any losses resulting from this lack of due diligence.

It is the custom of the Courts to look upon the customer's side with greater leniency than they do the broker's side; and the latter's risk in consequence of these many court decisions has been considerably increased.

It is necessary for the broker in sending out a margin call to make specific statements. If the broker simply writes, "Unless

you put up more money, we will sell out your account," it does not bind, and if he does sell out the account, he very likely becomes liable for damages on the part of the client. But if the broker writes to his client: "The margin which you agreed to maintain in your account is rapidly deteriorating, and is now below that which was agreed upon. Unless you place $2,000, or the equivalent in securities to the credit of your account with us, by 11.30 a.m., on Tuesday, February 20th, 1920, the account will be closed out on the New York Exchange, under the agreement which we have previously entered into," the notification has binding effect.

In this case the broker will likely protect himself, but if he does not close out the account *at the time* he stated, assuming that the client did not place the required margin, he is in the same predicament as before; and the client will probably have the law on his side unless the broker brings forth another definite notification and acts upon it.

Special Agreements Entered Into

Under the laws of New York, it is prohibited for the broker to close out an account unless at a public market; and the Exchanges are not public markets. Therefore, the client usually signs an agreement with the broker at the time the account is opened, permitting the latter to liquidate the account, under certain circumstances, on the Exchange of which he is a member.

Brokers very often go the extent of imprinting the following memorandum on their notices which, if accepted by the client without definite statement to that effect but simply by acquiescence, is considered to be a contract: "It is understood and agreed that all securities carried in this account or deposited to secure the same, may be carried in our general loans and may be sold or bought at public or private sale, without notice, when such sale or purchase is deemed necessary by us, for our protection."

The term used "without notice" is more or less meaningless because the law holds that a contract of this nature cannot be entered into by acquiescence and that due notice must be given.

Miscellaneous Points

The broker is not obliged to return to the customer the same certificates which were deposited with the broker to be used as collateral. A certificate of the same number of shares, although printed upon different paper and bearing a different number, represents precisely the same kind and value of property as does another certificate for a like number of shares of stock in the same corporation. It would be a misconception of the nature of a certificate to claim that the return of a different certificate or the right to substitute one certificate for another constitutes a material change in the property right held by the broker for the customer.

In the matter of executing an order a broker is bound to follow the instructions of his principal or give notice that he declines the agency. A broker, therefore, may refuse to execute an order for a client.

It is well known that an insolvent broker commits a crime in accepting the account of a client when the broker knows that he is insolvent.

The dividends on securities belong to the customer and the customer has the right to withdraw these dividends and any other amounts from his account in excess over the margin which he has agreed to retain with his broker.

CHAPTER IX

SELECTION OF A BROKER

Characteristics of Brokerage Firms

There are certain general qualifications concerning a brokerage firm which should receive attention when good brokerage service is being sought, although strict rules cannot be laid down with respect to the individual requirements of the brokers. These qualifications may be dispensed with under certain circumstances, especially when the customer has close personal or social relations with the members of the firm or the customer's man.

There are certain firms which do not desire to accept small accounts. These are usually the firms which have a considerable capital and which cater to men of means and speculators who deal heavily in securities. The multiplicity of brokerage firms, during a dull period, sometimes brings about a change whereby such large firms are often glad to accept these smaller accounts, but when active times again come, and the large orders commence pouring in, little attention is paid to the smaller accounts, and the service which their customers get is not satisfactory.

Consequently, for the man who has a small amount with which to speculate, or whose investments are in a few bonds and infrequently in a small number of shares, it is oftentimes better to deal with the firm which does not have extensive ramification, and a tremendous machinery. The smaller firm, realizing that its business depends upon the efficiency of its individual services caters to the small investor or speculator in the hope that he may develop later into a larger one and that his appreciation and gratitude for the service rendered when he was only a small personage will bring to the firm important commissions when he has grown financially.

The customer who deals in one hundred shares or more usually gets good service or can insist upon good service with

any brokerage firm, but the odd-lot customer sometimes suffers through lack of attention. The odd-lot business constitutes a portion of the brokerage business which stands almost by itself, and there is a separate system of machinery to take care of it. Therefore, it is oftentimes much more profitable for the odd-lot investor or speculator to stick closely with the firm which caters to his type of business.

It is often desirable, furthermore, for a speculator or investor to attach himself to a firm which has the reputation for excellent judgment in making selections for its clients and in giving good advice. The larger firm with its tentacles stretched out over the financial district is able to absorb much more news and to grind this news down into a workable mass and utilize it for the benefit of the customer.

Individual or Professional Standing

The choosing of the broker or the brokerage firm should be entered into with care. The position and standing of a brokerage firm is not similar to that of a mercantile firm and cannot be judged in the same way. This business partakes more of the speculative and does not depend so largely upon the usual business assets. It is not so necessary, accordingly, to know the amount of capital and the financial resources of a brokerage firm as it is to know the character of the individual members of the firm and the reputation which the firm holds among other brokerage houses and among bankers. In plain words, a rating in Bradstreet's or Dun's has little to do with the selecting of a brokerage firm with which to do business.

The reason for this is that a brokerage firm with a tremendous amount of capital can be, and usually is, very much extended, especially during a rising market, in the matter of its loans. Some of the large speculative firms during a bull market have been known to borrow from $40,000,000 to $80,000,000 to take care of their regular accounts. If a crisis should come such as occurred at the outbreak of the war in Europe, and if no protection could be afforded such as was afforded during that period,

the firm which was very much extended in the matter of its loans would go to the wall in an instant, while the small firm with a limited capital, doing a business possibly in the same proportion to its capital as the big firm, would likely be able to weather the storm because its necessities could be taken care of by its banking connections without much trouble or much extension of credit by the banking association.

Lax Methods a Danger Signal

Any firm which will involuntarily bring to the attention of its clients lax methods in relation to the ethics of the business, such as suggesting a low rate of interest for the purpose of acquiring the account or indirectly or directly splitting commissions, is a dangerous one with which to deal. Furthermore, if the firm shows carelessness in its Service Department and if it extends to its customers "tips" without the backing of a reason for such tips, it is almost an insurance to stay away from it.

While the membership on the Exchange safeguards the client, it does not necessarily follow that because a firm is a member of a Stock Exchange that it is better than a brokerage firm which is not a member of a Stock Exchange, because the brokerage firm which is not a member of a Stock Exchange may deal substantially in unlisted securities and make its profit from this source. But the firm which is not a member of the Exchange, whose business is in securities which are listed on the Exchange, deserves careful watching, because it cannot purchase and sell stocks without paying the full commission of an outsider and as its profits must come from some sources, it may be they are derived from one which is not likely to be beneficial to the customer.

Any firm which permits a margin account to fall below the requirements, which are given to the client when the account is established, is dangerous. Though at first thought it might seem otherwise, one should favor the firm which enforces strictly its margin requirements.

CHAPTER X

THE CUSTOMER'S CO-OPERATION

Essentials of Co-operation

The effective co-operation which ought to exist between broker and customer (assuming that the latter has chosen his broker wisely) rests upon rather simple principles, a willingness to see both sides and the desire to render one's business dealings mutually profitable.

It may be well in conclusion to say a few words upon these points:

Complaints

There are many reasons for complaining on the part of customers in connection with their brokerage firms, but the chief ones are the matter of interest rate, the execution of an order, the maintaining of margins, the delay in delivery of securities, the time it takes to report a transaction, and the method of making out statements and reports.

If the customer thoroughly acquaints himself with the business of brokerage, there will be no need for complaints, because when the fault lies with the broker, it will either be apparent or it will be a misunderstanding which, if called to the broker's attention in a pleasant and respectful manner, will be adjusted by the broker.

It is never advisable for the customer to become angry or "lose his head" over a misunderstanding in connection with a brokerage transaction. He should at once apply to the proper personage in the firm, and if the explanation is not satisfactory, he has an opportunity to go directly to the Secretary of the Exchange of which the brokerage firm is a member. If the brokerage firm is not a member of any Exchange, it is his place to take the matter up at once with the District Attorney.

No brokerage firm or their employees or agents should accept a discretionary account from its client, and if they do accept a

discretionary account, it means that they are bringing disaster upon themselves. And disaster means trouble for every one of the clients.

The Business

Commissions in relation to the service performed are so low that few, if any, brokers in the history of the profession have gained wealth through the accepting of commissions, and the carrying of margin accounts alone. In fact, it is almost axiomatic that, the business being so underpaid, the broker, to make large profits, finds it necessary to combine the brokerage business with investment banking or with speculation on his own account. Therefore, with this understanding in mind, *viz.*, that the service which he secures costs him a most reasonable price, it is the duty of the customer to co-operate with the broker and the broker's clerks as much as lies within his power.

The business, moreover, has its lean years during which so little trade is done that it is necessary for brokers to examine their payrolls to see where they can lighten their expenses. Then follows a time of wild activity in which the public engages in abnormal speculation, the machinery is clogged, the clerks are over-worked, and it is difficult for the broker to maintain an efficient organization. All these factors must be borne in mind by the customer.

Market Letters

The reasonable attitude toward what the broker attempts to do for customers, is especially essential with reference to the giving of advice — market commitments. The broker does not like to give advice; but custom and competition in the profession have made it necessary for him to give this advice, and to maintain, as previously explained, very often a large and costly service department.

Much of this advice is of general character and disseminated through the medium of *market letters*. A general market letter is the composite opinion of the firm, based upon conditions of an

economic nature which exist; and these opinions are usually such as to cover a period of time, since brokers cannot assume the responsibility of definitely announcing the course of prices for the day or even the next two or three days. This general letter, too, often contains analyses of individual securities, which might be good speculative opportunities for one type of client and disastrous for another.

Inasmuch as this is recognized, it is coming to be the custom for the brokerage fraternity to make market letters rather general in character; but to deal personally and individually with their customers, advising them in accordance with their characteristics, their wealth, their desires, and the end in view.

Brokerage Advertising

In the past the brokerage profession has been quite similar to that of the physician or the lawyer in the matter of advertising, and it has been deemed a breach of good business to do more than to make a small announcement, consisting of the name of the firm, the nature of the business, the telephone number, and the address. The development of advertising and the fact that it is becoming aristocratic has placed a somewhat different aspect on the viewpoint of brokerage advertising and it is now considered to be ethical and proper for the broker to advertise his *service* and to explain why his service is as good, if not better, than that of his competitor.

Conclusion

Just as the careful study of investment and speculation increases the customer's ability to derive profit from his investment and speculation, so will knowledge of how things actually run in a brokerage establishment enable him with increased success to choose his broker and deal satisfactorily with him.

We trust that what has been said in the preceding pages will prove useful to subscribers in securing these much-to-be-desired results.

TEST QUESTIONS

"HANDLING A BROKERAGE ACCOUNT"

The Test Questions which are unstarred can be answered directly from the Text discussion. You will find them helpful for purposes of review.

The questions which are starred call for original thought, the ability to apply the knowledge gained from the Text to the solution of new problems.

Answers to these starred questions are to be found on the last page of this Text.

*1. "What is the price at present of Fisher Body Common? I hold this security but haven't seen it for some time in the column of daily transactions. Where can I get this information?"

2. Explain how orders are handled (see also "Developing Financial Skill," pp. 50–53).

3. The broker's practice of using his customers' securities as collateral for loans, has at times been severely criticised. Why does he do this?

4. What are the two chief sources of a broker's earnings?

*5. "I bought 100 shares of Submarine Boat on December 15th, through B— & K—, and the following day sent certified check to them for the balance due, with instructions to have the certificate transferred to my name. To date (February 18) I have not received the certificate, nor have I had answers to my last two letters. What ought I to do?

*6. "D—, F—, & Co., Curb brokers, with whom I had an account have just failed. Since from time to time I purchase Curb securities, can you recommend me a Curb broker who 'won't fail'?"

7. What constitutes adequate notification by the broker that more margin is needed?

*8. Were you a broker would you advise customers with respect to their various commitments? Would you accept an order of this type? "Close out my 100 shares of Steel while I am away next week if you think the market will go lower?"

9. Why, specifically, should a customer know how the brokerage business is conducted?

KEY PRO

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HANDLING YOUR BR

Mr. X. Y. Z. In Accou

Date	Debit Received	Amount	Days	Interest
Jan. 1	Balance	$16,283.40	----	$-----
Jan. 1	50 Rdg. (85)	----------	----	-------
Jan. 1	100 Nickel (14)	----------	----	-------
Jan. 1	100 St. L. S. W. (27)	----------	----	-------
Jan. 1	50 Rubber (66)	----------	----	-------
Jan. 1	50 Utah (46)	----------	----	-------
Jan. 1	50 Un. Pac. (116)	----------	----	-------
Jan. 1	50 M. N. P. (156)	----------	----	-------
Jan. 1	50 A. L. O. (84)	----------	----	-------
Jan. 4	10 B. Ed. 7's	----------	----	-------
Jan. 4	(subscription)	9,725.00	----	-------
Jan. 12	Check	1,000.00	----	-------
Jan. 13	10 N. West Tel.	----------	----	-------
Jan. 13	7's (subscription)	9,656.12	----	-------
Jan. 27	100 Steel @ 81⅛	8,127.50	----	-------
Jan. 29	50 Utah 50½	2,532.50	----	-------
Jan. 30	Cash	35.00	----	-------
Jan. 30	Check	750.00	----	-------
Jan. 31	50 Rubber 64½	3,232.50	----	-------
	Int. 9%	----------	----	-------
	Balance?	----------	----	-------
Feb. 1	Balance?	----------	----	-------
Feb. 1	Stocks on Hand	----------	----	-------
		----------	----	-------

We have found that not five (5) out of every one hundred (100) men know how to thoroughly check up their brokerage account. The above statement for January is for a month of thirty-one (31) days. Interest is 9%. Figure balance, whether a debit or credit. Bring down stocks on

BLEM

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OKERAGE ACCOUNT

nt with A. A. ADAMS & CO.

Date	Credit Delivered	Amount	Days	Interest
Jan. 10	100 Nickel 16¼	$1,606.00	----	$------
Jan. 11	50 Rubber 70½	3,515.50	----	-------
Jan. 14	100 Steel @ 84¼	8,406.00	----	-------
Jan. 15	50 Un. Pac. 121	6,040.50	----	-------
Jan. 15	div. 50 U. P.	125.00	----	-------
Jan. 16	10 N. West Tel.	----------	----	-------
Jan. 16	7's 97	9,688.15	----	-------
Jan. 18	10 B. Ed. 7's	----------	----	-------
Jan. 18	delivered	9,700.00	----	-------
Jan. 20	100 Steel @ 86½	8,631.00	----	-------
Jan. 25	50 M. N. P. 162	8,090.50	----	-------
Jan. 26	50 A. L. O. 88½	4,415.50	----	-------
Jan. 28	50 M. N. P. 164	8,190.50	----	-------
Jan. 30	50 Rdg. 33½	4,165.50	----	-------
	Balance	----------	----	-------
Feb. 1	Balance?	----------	----	-------
Feb. 1		----------	----	-------
		----------	----	-------

hand February 1. Figure your equity (or money on hand) based on prices given in parenthesis ( ). Price for Steel is eighty-two (82).

Figure this statement, and prove it, as shown by text. When worked out, problem may be copied and sent in for correction if desired.

ANSWERS TO STARRED QUESTIONS

"HANDLING A BROKERAGE ACCOUNT"

*1. The price quoted (at time inquiry was received) was 172 bid and 195 asked. This stock thus shows a very wide spread in its quotations. For this reason it is not advisable to enter orders either to buy or sell without first having a quotation.

Your broker can obtain a quotation for you upon request. But we suggest that you make use of the column of closing bid and asked prices in keeping track of the market for these inactive issues. Some papers, such as the *New York Times*, list separately these bids and asked prices of issues in which no transactions have occurred.

*5. There are certain justifiable causes for delay in transfer (see Text, Page 47) but should you have put the matter up to the firm clearly, as you appear to have done, they have been very negligent, to say the least. We suggest that you send them, by registered mail, letter notifying them that this certificate must reach you by a certain definite time, say one week, or you will put the matter into the hands of the District Attorney.

*6. You can purchase Curb securities through a New York Stock Exchange firm. Many of these firms have a Curb representative and can give you fully as satisfactory service as the average Curb house. While the term "won't fail" cannot be applied with positiveness, these members of the New York Stock Exchange possess considerable financial solidity.

*8. We shall leave the first part of this question for the reader to decide for himself, pro and con. See in this connection what Mr. Holt says on Page 28 of "Market Information." Looking at the matter practically, brokers, in order to meet the demands laid upon them, do go a long way in giving advice.

This represents a discretionary order; and brokers of repute will not — save under very unusual conditions, such as a special favor for some customer whose views upon the market and methods of trading are well known to the broker — accept them. The acceptance of these discretionary orders opens the way to so many disputes and difficulties that conservative practice is decidedly against it.

Garden City Press, Inc.
Newton, Mass.